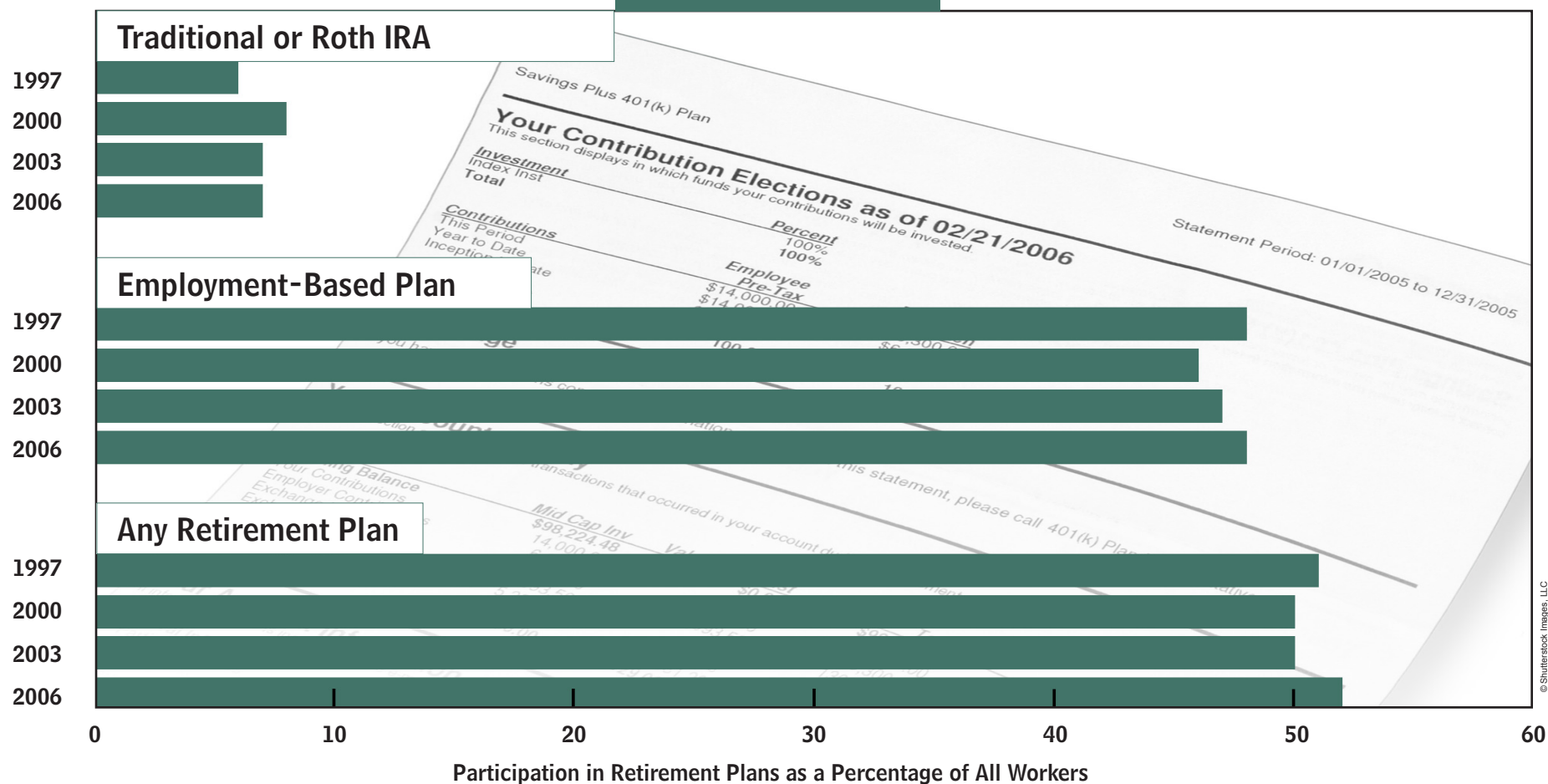


# CBO

## Use of Tax Incentives for Retirement Saving in 2006



OCTOBER 2011





# **Use of Tax Incentives for Retirement Saving in 2006**

October 2011

---

## Notes and Definitions

Unless otherwise noted, all years referred to are calendar years. Numbers in the text, tables, and exhibits may not add up to totals because of rounding.

### Types of Tax Benefits

**Traditional:** Retirement plans offering these benefits allow contributions to be made from before-tax income, deferring taxes until the funds are withdrawn.

**Roth-style:** Retirement plans offering these benefits require contributions to be made from after-tax income, but impose no tax on withdrawals.

### Employment-Based Retirement Plans

**Defined-Benefit Plans:** Retirement payments under this group of plans are set on the basis of formulas that typically consider an employee's earnings and years of service. Because defined-benefit plans do not accept before-tax contributions from employees, they are categorized as noncontributory. Roth-style benefits are not available through such plans.

**Defined-Contribution Plans:** Retirement payments under this group of plans are made out of accounts that contain the amounts contributed by the employer and the employee, and the investment earnings on those contributions. For this study, defined-contribution plans are further subdivided into two groups, 401(k)-type plans and noncontributory defined-contribution plans.

*401(k)-type plans:* These plans accept before-tax contributions from employees. Many such plans also permit employers to match some or all of their employees' contributions. This category includes 401(k), 403(b), and 457 plans (all named for the sections of the Internal Revenue Code in which they are defined) and the federal government's Thrift Savings Plan. 401(k) plans are most common in the private sector, 403(b) plans are most common in the nonprofit sector and in public school systems, and 457 plans are most common in other state and local government units. Before 2006, 401(k)-type plans provided traditional tax benefits only; in 2006, Roth 401(k) plans were introduced for wage earners but not for self-employed people.

*Noncontributory defined-contribution plans:* These plans do not accept before-tax contributions from employees; instead, they are funded entirely by employers. Roth-style benefits are not available through such plans.

## Individual Retirement Accounts

**Traditional IRAs:** Most taxpayers who contribute to a traditional individual retirement account (IRA) are permitted to make before-tax contributions to that account. However, if either the taxpayer or the taxpayer's spouse is covered by an employment-based plan, some or all of those contributions may be deemed after-tax contributions, depending on income (see [Table A-1 of the online supplemental material](#) for details). In such cases, the amounts contributed can be withdrawn tax-free, but the earnings on those contributions are taxable upon withdrawal. For this report, before- and after-tax contributions to traditional IRAs were tabulated together.

**Roth IRAs:** The Roth-style IRA (introduced in 1998) accepts after-tax contributions only, and withdrawals are tax-free once the account is five years old. Above certain income thresholds, however, contributions are limited or disallowed (see [Table A-1 of the online supplemental material](#) for details).

## Data and Supplemental Material

**Source data:** Participation in tax-favored retirement plans, contributions to such plans, and the amounts claimed for the saver's credit were tabulated from a sample of 320,897 individual income tax returns for 2006 and enhanced by attaching data from supplemental tax forms filed by employers and financial institutions. Details on how that database was assembled and used are presented in the appendix.

**Identification of Plan Types:** The data did not permit the discrete identification of all types of plans. For wage earners, 401(k)-type plans could be identified, but it was impossible to distinguish noncontributory defined-contribution from noncontributory defined-benefit plans, so both varieties were tabulated together. (Note that noncontributory plans, despite their label, include plans that require employees to make after-tax contributions and pay tax on benefits in excess of those contributions.) None of the different employment-based plan types could be identified for self-employed people, so all data on those workers were tabulated together.

People can participate in more than one type of plan, and such participation is generally reflected in the tabulations. People who participated in an employment-based plan along with an IRA are counted in each category, as are people who contributed both to a traditional IRA and to a Roth IRA. The exception is wage earners who participated in a 401(k)-type plan and a noncontributory plan at the same time. Because they are not separately identifiable in the data, those workers are counted only as participants in 401(k)-type plans. Roth 401(k) plans are not identified separately in the data, but there is evidence that participation in 2006 (the first year of their existence) was low.

**Supplemental Material:** [Additional material is available online \(www.cbo.gov\)](http://www.cbo.gov), including detailed historical information on changes in tax provisions and on participation rates; average contributions (in nominal amounts and as adjusted for inflation); and percentages of people who were constrained by contribution limits for 1997, 2000, 2003, and 2006.

---



## Preface

In 2006, more than half of all U.S. workers participated in some form of tax-favored retirement plan. This study, the fourth in a triennial series published by the Congressional Budget Office (CBO) on participation rates in and contributions to various plans, examines data for that year. The first in the series, *Utilization of Tax Incentives for Retirement Saving* (August 2003), presented data from 1997; the subsequent updates presented data for 2000 and 2003.

This document was prepared at the request of the Chairman of the Senate Finance Committee. In keeping with CBO's mandate to provide objective, impartial analysis, the study makes no recommendations.

Paul Burnham of CBO's Tax Analysis Division produced the study under the direction of Frank Sammartino and Janet Holtzblatt. Frank Russek of CBO and Peter Brady of the Investment Company Institute provided useful comments. The assistance of an external reviewer implies no responsibility for the final product, which rests solely with CBO.

Kate Kelly edited the document, and John Skeen proofread it. Maureen Costantino and Jeanine Rees prepared the document for publication, Monte Ruffin produced the printed copies, and Linda Schimmel handled the print distribution. An electronic version is available from CBO's Web site ([www.cbo.gov](http://www.cbo.gov)).

Douglas W. Elmendorf  
Director

October 2011



## List of Exhibits

Exhibit	Page
<b>Participation Rates and Contributions</b>	
1. Participation in Tax-Favored Retirement Plans, 2003 and 2006	5
2. Participation of Wage Earners in Employment-Based Retirement Plans, 2003 and 2006	6
3. Participation of the Self-Employed in Employment-Based Retirement Plans, 2003 and 2006	7
4. Participation of the Self-Employed and Wage Earners in Employment-Based Retirement Plans, by Income Range, 2006	8
5. IRA Participation, 2003 and 2006	9
6. IRA Participation, by Income Range, 2006	10
7. Retirement Plan Participation, 1997 to 2006	11
8. Contributions by Wage Earners to 401(k)-Type Plans, 2003 and 2006	12
9. Contributions by the Self-Employed to Employment-Based Retirement Plans, 2003 and 2006	13
10. Contributions to Traditional IRAs, 2003 and 2006	14
11. Contributions to Roth IRAs, 2003 and 2006	15
12. Average Contributions to Roth and Traditional IRAs, by Age Group, 2006	16
<b>Effects of EGTRRA's Increases in Contribution Limits</b>	
13. Participants Making the Maximum Contribution, 2000 to 2006	18
14. Average Real Contributions to Retirement Plans, 1997 to 2006	19

<b>Exhibit</b>	<b>Page</b>
15. The Effect of EGTRRA on Maximum Contributions to 401(k)-Type Plans, 2006	20
16. The Effect of EGTRRA on Maximum Contributions to Traditional IRAs, 2006	21
17. The Effect of EGTRRA on Maximum Contributions to Roth IRAs, 2006	22
<b>Use of the Saver's Credit</b>	
18. Eligibility for the Saver's Credit, 2003 and 2006	24
19. Claiming of the Saver's Credit by Eligible Workers, 2003 and 2006	25
20. Eligible Contributors Claiming the Saver's Credit, 2006	26
21. Average Saver's Credits and Associated Contributions, 2003 and 2006	27
22. Other Features of Contributions for Which the Saver's Credit May Be Claimed, 2003 and 2006	28
23. Effective Rate of the Saver's Credit, 2006	29



# Use of Tax Incentives for Retirement Saving in 2006

The federal income tax system contains two alternative types of incentives to encourage workers to save for retirement. With traditional incentives, workers make contributions (up to a statutory limit) into certain accounts from their before-tax income and defer tax payments until the funds are withdrawn. With so-called Roth-style incentives, workers contribute from after-tax income but pay no tax at the time of withdrawal. In either case, the resulting investment income is effectively earned tax-free. If the participant's marginal tax rate is the same at the time of contribution as it is at the time of withdrawal, the tax benefits of traditional and Roth-style treatment are the same. A participant whose marginal tax rate is lower at the time funds are withdrawn would prefer traditional treatment; a participant whose marginal tax rate is higher at withdrawal would prefer Roth-style treatment.

Among the retirement savings vehicles permitting a choice between traditional and Roth-style incentives are individual retirement accounts (IRAs) and (at the discretion of the employer) 401(k)-type plans. Contributions to 401(k)-type plans also can be made by employers, but such contributions can benefit only from the traditional incentive. Similarly, employer contributions to plans to which employees do not contribute (non-contributory plans) can benefit only from the traditional incentive.

This publication of the Congressional Budget Office (CBO) examines participation rates in and contributions to various plans in 2006, with some earlier data presented for comparison. Two features of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) also are analyzed: increases in contribution limits and an additional incentive created to encourage lower-income taxpayers to save for retirement that is known as the "saver's credit."

## Participation Rates and Contributions

In 2006, just over half (52 percent) of all workers who filed tax returns participated in some form of tax-favored retirement plan. The highest rates of participation (64 percent and above) were seen among workers between the ages of 45 and 59; those whose income was \$40,000 or more; and those who were the primary (that is, the higher) earner in a two-earner household. The lowest rates (41 percent or less) were among workers under the age of 30; those whose income was under \$20,000; and those who were unmarried. Participation was concentrated in employment-based plans, with 48 percent of all workers either contributing to or being covered by such a plan (47 percent as wage earners and 1 percent as self-employed people). Only 7 percent of workers contributed to IRAs;

some of those workers also participated in employment-based plans.

Twenty-nine percent of workers who filed tax returns were wage earners who contributed to 401(k)-type plans. Another 18 percent were wage earners who participated in noncontributory employment-based plans only. Participation rates by age, income, and marital status for 401(k)-type plans were similar to those for all tax-favored retirement plans. For employees who participated in noncontributory plans only, the rates were much more uniform across all groupings. Participants in 401(k)-type plans contributed an average of \$4,350 in 2006. Average contributions were higher among older workers and those whose earnings fell into higher income ranges. For example, average contributions were \$670 among participants whose income was below \$20,000 and \$11,000 among those earning \$160,000 or more. Contributions also were higher among married workers who were either a sole or a primary earner than they were among unmarried workers or among secondary earners in two-earner couples.

Slightly fewer workers contributed to traditional IRAs (3 percent) than to Roth IRAs (4 percent) in 2006. Participation in each type of IRA was strongly associated with income (except in the highest income range, in which workers were ineligible to contribute to a Roth IRA).

Participation in traditional IRAs was more strongly correlated with age than was participation in Roth IRAs. Two-earner married couples who filed joint returns were more likely than other married couples or single workers to contribute to any type of IRA. Participation was lowest among unmarried workers. Contributions to traditional IRAs were larger (\$2,840), on average, than contributions to Roth IRAs (\$2,590). Average contributions to both types of IRAs generally increased with age and income.

Overall participation in some form of tax-favored retirement plan was nearly the same in 1997, 2000, 2003, and 2006—within 1 percentage point of 51 percent. The 52 percent participation rate for 2006 represented an increase of 2 percentage points over the rate for 2003, and the change was fairly uniform across age groups and income ranges and according to marital or earner status. Between 2003 and 2006, participation in 401(k)-type plans and IRAs did not change, and participation solely in noncontributory plans increased by 1 percentage point.

Average contributions to all types of plans increased in real (inflation-adjusted) terms between 2003 and 2006, reflecting mostly the scheduled increases in the maximum contribution under EGTRRA. Changes in average contributions in excess of income growth might not indicate any change in the overall saving rate; instead, the differences in average contributions might reflect the shifting of assets between taxable and tax-favored accounts. CBO did not attempt to identify what proportion of higher average contributions should

be attributed to new saving and what represented shifting between types of accounts.

### Effects of EGTRRA's Increases in Contribution Limits

Tax law has always limited contributions to tax-favored retirement plans—both in dollar terms and as a percentage of compensation. EGTRRA raised most of those limits (see the table to the right). The percentage-of-compensation limits were increased immediately by that act for 401(k)-type plans; they were already at 100 percent for IRAs. The dollar limits were increased according to a schedule (over five years for 401(k)-type plans and over seven years for IRAs) and now are indexed for inflation. Unlike most other aspects of EGTRRA, the higher contribution limits are not scheduled to expire after 2012—they were made permanent by the Pension Protection Act of 2006.

Contribution limits affect the extent to which certain types of expansions in tax incentives for retirement savings increase private saving. Participants whose contributions fall below a limit would not have any incentive to save more if the limit was raised: Under current law, they could receive a larger tax benefit by saving more, but they choose not to. In contrast, participants who contribute the maximum amount allowed under current law would have an incentive to save more if the limit was raised, and they might choose to save more. Thus, the percentage of participants who already contribute the maximum amounts allowed (that is, the percentage who are constrained by the current contribution limits) represents an upper bound on

### Comparison of Pre-EGTRRA and Current-Law Contribution Limits in 2006

	Under Pre-EGTRRA Law	Under Current Law (EGTRRA)
<b>401(k) Plan</b>		
Percentage of Compensation	25	100
Dollar Amount		
Under age 50	12,000 <sup>a</sup>	15,000
Age 50 or older	12,000 <sup>a</sup>	20,000
<b>IRA (Dollars)</b>		
Traditional		
Under age 50	2,000	4,000
Age 50 or older	2,000	5,000
Roth		
Under age 50	2,000	4,000
Age 50 or older	2,000	5,000

Source: Congressional Budget Office.

Note: EGTRRA = Economic Growth and Tax Relief Reconciliation Act of 2001; IRA = individual retirement account.

a. The contribution limits under pre-EGTRRA law are estimated on the basis of inflation since 2001.

the percentage of participants who might be induced to save more if the limits were raised.

Five percent of participants in 401(k)-type plans in 2006 contributed up to the limits established by EGTRRA. Twelve percent contributed amounts

equal to or greater than the pre-EGTRRA limits and presumably would have made the maximum allowable contributions in the absence of EGTRRA. Therefore, EGTRRA reduced the proportion of participants who were constrained by the contribution limits for 401(k)-type plans by 7 percentage points. For traditional IRAs, EGTRRA reduced the proportion of participants constrained by the contribution limits in 2006 from 73 percent to 52 percent, a decline of 21 percentage points; for Roth IRAs, the corresponding proportions were 62 percent and 39 percent, for a decline of 23 percentage points.

# The Saver's Credit

The saver's credit was introduced by EGTRRA to encourage retirement saving by providing tax credits to qualifying taxpayers whose adjusted gross income falls below particular thresholds. To qualify, a worker must contribute either to a 401(k)-type plan or to an IRA. The rate of the credit is determined by a worker's adjusted gross income and filing status, and it is applied to the first \$2,000 of qualifying contributions (see the table to the right).

The saver's credit is nonrefundable, meaning that it cannot exceed a taxpayer's income tax liability. Thus, workers without any income tax liability cannot claim the credit, even if they make qualifying contributions. The saver's credit originally was scheduled to expire after 2006, but it was made permanent (and the top threshold was indexed for inflation) by the Pension Protection Act of 2006.

In 2006, 25 percent of all workers who filed tax returns were eligible to take the saver's credit (down from 30 percent in 2003) on the basis of their income and tax liability. Only 20 percent of those eligible actually contributed to a retirement account (down slightly from 21 percent in 2003), and 65 percent of those who contributed claimed the credit (up from 59 percent in 2003).

Taxpayers whose income was low enough to qualify for the top credit rate (50 percent) were the least likely either to make qualifying contributions or to claim the credit if they did. Those whose income placed them in the lowest bracket (10 percent) were the most likely to make qualifying contributions and to claim the credit. The average amount of the credit was \$156.

# Saver's Credit Rates and Income Ranges, 2003 and 2006

(Dollars)

Rate of Credit	Income Range
<b>Single or Married Filing Separately</b>	
50 Percent	0 to 14,999
20 Percent	15,000 to 16,249
10 Percent	16,250 to 24,999
<b>Married Filing Jointly</b>	
50 Percent	0 to 29,999
20 Percent	30,000 to 33,499
10 Percent	33,500 to 49,999
<b>Filing as Head of Household</b>	
50 Percent	0 to 22,499
20 Percent	22,500 to 24,374
10 Percent	24,375 to 37,499

Source: Congressional Budget Office.

Note: The income ranges refer to adjusted gross income.



## **Participation Rates and Contributions**



**Exhibit 1.****Participation in Tax-Favored Retirement Plans, 2003 and 2006**

	2003		2006	
	Number of Workers (Millions)	Percentage Participating in Any Plan <sup>a</sup>	Number of Workers (Millions)	Percentage Participating in Any Plan <sup>a</sup>
<b>Age Group (Years)</b>				
Under 30	38.9	32	41.8	33
30 to 44	48.8	56	49.6	57
45 to 59	39.8	63	44.7	64
60 or Older	13.3	44	13.5	45
<b>All Ages</b>	<b>140.8</b>	<b>50</b>	<b>149.6</b>	<b>52</b>
<b>Income Range (2006 dollars)<sup>b</sup></b>				
Under \$20,000	38.8	17	41.5	17
\$20,000 to \$39,999	30.6	46	31.9	47
\$40,000 to \$79,999	37.2	63	38.6	65
\$80,000 to \$119,999	19.0	76	19.8	77
\$120,000 to \$159,999	7.2	82	7.9	81
\$160,000 and Above	7.9	81	9.9	81
<b>All Income Ranges</b>	<b>140.8</b>	<b>50</b>	<b>149.6</b>	<b>52</b>
<b>Marital and Earner Status</b>				
Unmarried Earners	69.8	40	74.8	41
Married Earners				
Sole	21.2	52	20.0	52
Primary	24.9	72	27.4	74
Secondary	24.9	57	27.4	57
<b>All Earners</b>	<b>140.8</b>	<b>50</b>	<b>149.6</b>	<b>52</b>
Nonearning Spouses	21.2	6	20.0	7

Source: Congressional Budget Office tabulations of a sample of 2003 and 2006 individual income tax returns and tax information returns.

- Participation consists of either enrolling in a noncontributory plan or contributing to an individual retirement account; a 401(k)-type plan; or a self-employment SEP (simplified employee pension), SIMPLE (Savings Incentive Match Plan for Employees), or other qualified plan.
- The income ranges refer to adjusted gross income plus excluded contributions to retirement plans minus taxable distributions from individual retirement accounts.

In 2006, 52 percent of U.S. workers participated in some sort of tax-favored retirement plan. That rate was 2 percentage points higher than the overall participation rate in 2003. In both 2003 and 2006, participation rates varied widely by age, income, and marital and earner status.

Participation increased with age—but only to age 60. In 2006, the participation rate among workers under 30 was 33 percent. The rate was 57 percent among 30- to 44-year-olds and 64 percent among 45- to 59-year-olds. Only 45 percent of workers age 60 or older participated, probably because that group includes workers who are semiretired and are receiving benefits rather than saving for them.

Participation was lowest among people whose income was below \$20,000—17 percent in 2006. In each successive income category, except the highest, participation was greater. In 2006, participation was 81 percent in the highest income range, the same as in the next-highest range.

Unmarried workers were less likely than married workers to participate in some kind of tax-favored plan. Participation was lower (41 percent in 2006) among unmarried people than among primary (higher) earners (74 percent) or secondary (lower) earners (57 percent) in two-earner families or among sole earners in one-earner married couples (52 percent). ♦

**Exhibit 2.****Participation of Wage Earners in Employment-Based Retirement Plans, 2003 and 2006**

(Percentage of all workers)

	2003			2006		
	401(k)-Type Plan <sup>a</sup>	Noncontributory Plan Only <sup>b</sup>	Any Employment-Based Plan	401(k)-Type Plan <sup>a</sup>	Noncontributory Plan Only <sup>b</sup>	Any Employment-Based Plan
<b>Age Group (Years)</b>						
Under 30	14	16	30	16	15	31
30 to 44	34	18	52	34	20	54
45 to 59	38	19	57	39	19	58
60 or Older	22	15	37	23	15	38
<b>All Ages</b>	<b>29</b>	<b>17</b>	<b>46</b>	<b>29</b>	<b>18</b>	<b>47</b>
<b>Income Range (2006 dollars)<sup>c</sup></b>						
Under \$20,000	4	10	15	5	11	16
\$20,000 to \$39,999	21	21	43	23	21	44
\$40,000 to \$79,999	37	22	58	38	22	61
\$80,000 to \$119,999	51	19	70	50	21	71
\$120,000 to \$159,999	58	16	74	58	17	74
\$160,000 and Above	57	13	69	56	14	70
<b>All Income Ranges</b>	<b>29</b>	<b>17</b>	<b>46</b>	<b>29</b>	<b>18</b>	<b>47</b>
<b>Marital and Earner Status</b>						
Unmarried Earners	21	16	37	22	16	38
Married Earners						
Sole	30	17	46	30	17	47
Primary	47	20	67	48	20	69
Secondary	31	19	50	31	20	51
<b>All Earners</b>	<b>29</b>	<b>17</b>	<b>46</b>	<b>29</b>	<b>18</b>	<b>47</b>

Source: Congressional Budget Office tabulations of a sample of 2003 and 2006 individual income tax returns and tax information returns.

- Participation consists of contributing to a 401(k)-type plan during the given year.
- Participation consists of being enrolled in a noncontributory plan during the given year, while not contributing to a 401(k)-type plan.
- The income ranges refer to adjusted gross income plus excluded contributions to retirement plans minus taxable distributions from individual retirement accounts.

In 2006, 47 percent of workers participated in employment-based retirement plans, accounting for more than 90 percent of those who participated in any tax-favored plan. The largest group (29 percent of all workers) contributed to a 401(k)-type plan; 18 percent of workers were enrolled in a noncontributory plan only.

The patterns of participation in 401(k)-type plans—by age, income, and marital and earner status—were similar to those for all tax-favored retirement plans. Participation was greater among workers between the ages of 30 and 59 and among workers with annual income of \$80,000 or more. Participation of married people, regardless of earner status, outstripped that of unmarried people.

Rates of participation in noncontributory plans only were fairly uniform among the various groups. Participation was highest among 30- to 44-year-old workers (20 percent), similar to that among 45- to 59-year-old workers (19 percent). Participation peaked at 22 percent among workers earning between \$40,000 and \$79,999 per year, although the rate was almost the same (21 percent) among workers earning between \$20,000 and \$39,999 and workers earning between \$80,000 and \$119,999. There were only small differences in participation among groups by marital and earner status.

Because the available data sources do not contain enough information to identify people who participated in 401(k)-type and noncontributory plans simultaneously, such participants were counted in the 401(k)-type group only. Results for workers who participated in a noncontributory plan alone may not reflect the patterns for all participants in noncontributory plans. ♦

**Exhibit 3.****Participation of the Self-Employed in Employment-Based Retirement Plans, 2003 and 2006**

	2003		2006	
	Percentage of All Workers <sup>a</sup>	Percentage of Self-Employed Workers <sup>a</sup>	Percentage of All Workers <sup>a</sup>	Percentage of Self-Employed Workers <sup>a</sup>
<b>Age Group (Years)</b>				
Under 30	<1	1	<1	1
30 to 44	1	7	1	6
45 to 59	2	12	2	11
60 or Older	2	8	2	10
<b>All Ages</b>	<b>1</b>	<b>8</b>	<b>1</b>	<b>8</b>
<b>Income Range (2006 dollars)<sup>b</sup></b>				
Under \$20,000	<1	1	<1	1
\$20,000 to \$39,999	<1	2	<1	2
\$40,000 to \$79,999	1	6	<1	5
\$80,000 to \$119,999	1	13	1	11
\$120,000 to \$159,999	3	24	2	19
\$160,000 and Above	7	38	7	36
<b>All Income Ranges</b>	<b>1</b>	<b>8</b>	<b>1</b>	<b>8</b>
<b>Marital and Earner Status</b>				
Unmarried Earners	<1	4	<1	4
Married Earners				
Sole	1	8	1	8
Primary	2	15	2	13
Secondary	1	10	1	9
<b>All Earners</b>	<b>1</b>	<b>8</b>	<b>1</b>	<b>8</b>

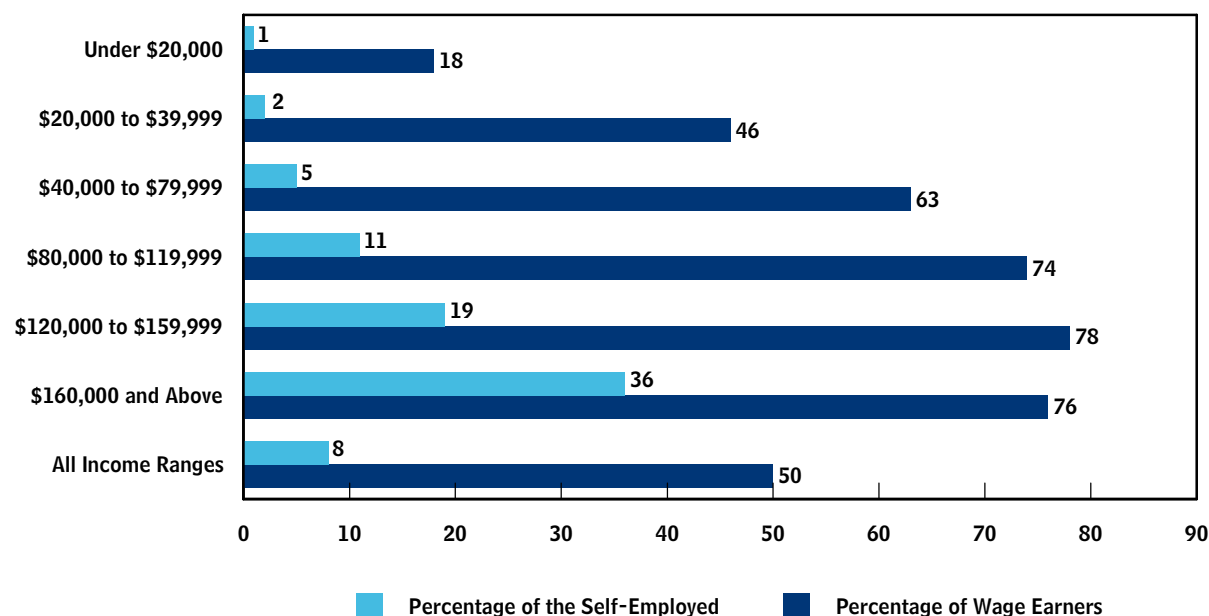
Source: Congressional Budget Office tabulations of a sample of 2003 and 2006 individual income tax returns and tax information returns.

Note: Self-employed workers are those who file Schedule SE.

- Participation consists of reporting a contribution to a self-employment SEP (simplified employee pension), SIMPLE (Savings Incentive Match Plan for Employees), or other qualified plan.
- The income ranges refer to adjusted gross income plus excluded contributions to retirement plans minus taxable distributions from individual retirement accounts.

Self-employed workers participating in employment-based retirement plans accounted for a much smaller share of participation in tax-favored retirement plans in 2003 or 2006 than did wage earners participating in employment-based plans or IRA contributors. Just 1 percent of all U.S. workers fell into the category of self-employed participants in either year. Among workers with self-employment income, the participation rate in employment-based retirement plans in both 2003 and 2006 was 8 percent, far below the participation rate among wage earners.

Expressed as a percentage of self-employed people, participation was lowest in the under-30 age group (1 percent in 2006) and highest among 45- to 59-year-old workers (11 percent). Among workers over the age of 59, however, the rate of participation dropped back to 10 percent. Unmarried earners were less likely (4 percent) than married workers to participate; within married couples, primary earners had the highest rate of participation (13 percent). ♦

**Exhibit 4.****Participation of the Self-Employed and Wage Earners in Employment-Based Retirement Plans, by Income Range, 2006**

Source: Congressional Budget Office tabulations of a sample of 2006 individual income tax returns and tax information returns.

Notes: Figures for wage earners are not comparable to those in Exhibit 2 because that exhibit calculates participation as a percentage of all workers, not as a percentage of wage earners.

The income ranges refer to adjusted gross income plus excluded contributions to retirement plans minus taxable distributions from individual retirement accounts.

Rates of participation in employment-based retirement plans among the self-employed in 2006 differed markedly by participants' annual income, from 1 percent in the under-\$20,000 group to 36 percent in the group earning \$160,000 or more. That pattern contrasts with participation among wage earners, for whom the rate was relatively flat in all income groups above \$80,000 and actually slightly lower in the highest income group than in the second-highest income group.

Despite that difference in the pattern of participation across income groups, participation among wage earners was higher than among self-employed people in every income group. Overall, half of all wage earners and 8 percent of self-employed people participated in an employment-based plan in 2006. (Unlike Exhibit 2, this exhibit shows participation rates for wage earners calculated as a percentage of wage earners, not as a percentage of all workers.) ♦



**Exhibit 5.****IRA Participation, 2003 and 2006**

(Percentage of all workers)

Category	2003			2006		
	Traditional IRA	Roth IRA	Any IRA	Traditional IRA	Roth IRA	Any IRA
<b>Age Group (Years)</b>						
Under 30	1	3	4	1	3	4
30 to 44	3	4	7	3	4	7
45 to 59	6	5	10	6	5	10
60 to 70	9	3	11	8	3	11
71 or Older	n.a.	3	3	n.a.	2	2
<b>All Ages</b>	<b>4</b>	<b>4</b>	<b>7</b>	<b>3</b>	<b>4</b>	<b>7</b>
<b>Income Range (2006 dollars)<sup>a</sup></b>						
Under \$20,000	1	1	2	1	1	2
\$20,000 to \$39,999	3	2	5	3	3	5
\$40,000 to \$79,999	5	4	9	4	5	9
\$80,000 to \$119,999	5	7	12	4	8	12
\$120,000 to \$159,999	6	10	15	6	10	15
\$160,000 and Above	10	3	13	10	n.a.	10
<b>All Income Ranges</b>	<b>4</b>	<b>4</b>	<b>7</b>	<b>3</b>	<b>4</b>	<b>7</b>
<b>Marital and Earner Status</b>						
Unmarried Earners	2	3	5	2	3	5
Married Earners						
Sole	5	3	8	4	4	8
Primary	5	5	10	5	5	10
Secondary	5	5	10	5	5	10
<b>All Earners</b>	<b>4</b>	<b>4</b>	<b>7</b>	<b>3</b>	<b>4</b>	<b>7</b>
Nonearning Spouses <sup>b</sup>	4	2	6	4	3	7

Source: Congressional Budget Office tabulations of a sample of 2003 and 2006 individual income tax returns and tax information returns.

Note: IRA = individual retirement account; n.a. = not applicable.

a. The income ranges refer to adjusted gross income plus excluded contributions to retirement plans minus taxable distributions from IRAs.

b. Participation is calculated as a percentage of all nonearning spouses, not as a percentage of all workers.

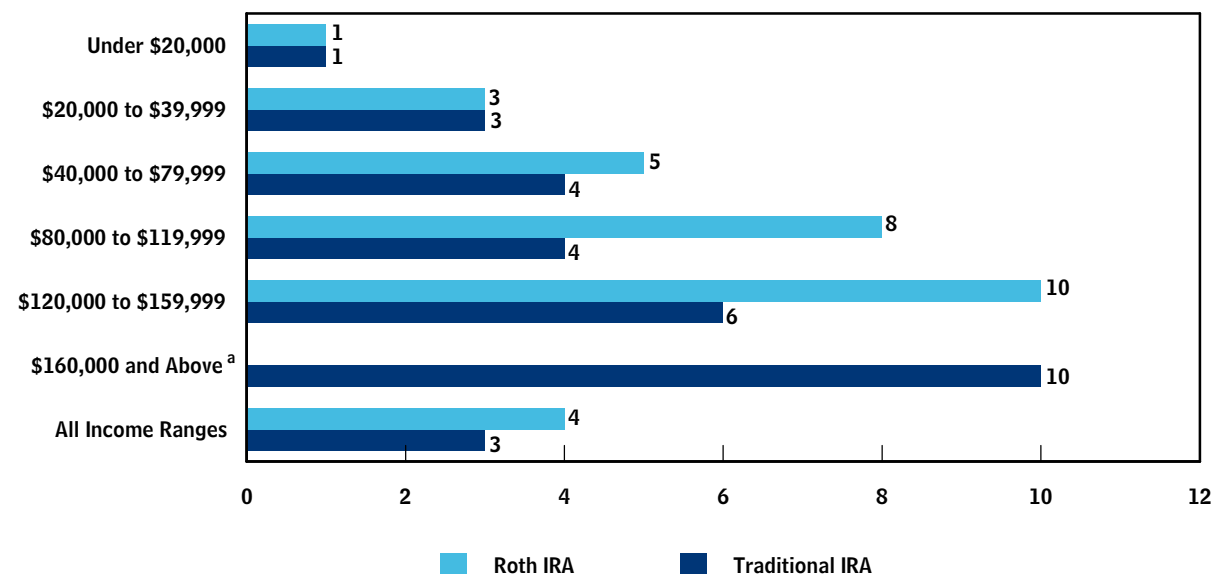
Only 7 percent of workers contributed to an individual retirement account in 2003 or in 2006—a far lower percentage than participated in employment-based retirement plans in either year. Participation was 4 percent in 2003 and 3 percent in 2006 for traditional IRAs and 4 percent in both years for Roth IRAs. (A small number of people contributed to both types in the same year.)

In 2006, overall participation in IRAs was highest (11 percent) among workers between the ages of 60 and 70. People over the age of 70½ cannot contribute to traditional IRAs, so the overall IRA participation rate among workers who were 71 or older was only 2 percent that year. Participation in traditional IRAs was lowest among those under age 30 and highest among people between the ages of 60 and 70. Participation in Roth IRAs peaked at 5 percent among people between the ages of 45 and 59. Younger workers were more likely to participate in a Roth IRA (3 percent under the age of 30 did so) than in a traditional IRA (just 1 percent participated). In contrast, the participation rate in traditional IRAs among people in the 60- to 70-year-old group was 8 percent, more than twice that for Roth IRAs (3 percent).

There was little difference in participation among groups by marital and earner status. Ten percent of members of two-earner households contributed to IRAs—5 percent to each type—regardless of whether they were the primary or secondary earner. ♦

**Exhibit 6.****IRA Participation, by Income Range, 2006**

(Percentage of all workers)



Source: Congressional Budget Office tabulations of a sample of 2006 individual income tax returns and tax information returns.

Notes: The income ranges refer to adjusted gross income plus excluded contributions to retirement plans minus taxable distributions from IRAs.

IRA = individual retirement account.

a. Contributions to Roth IRAs are not permitted in this income range.

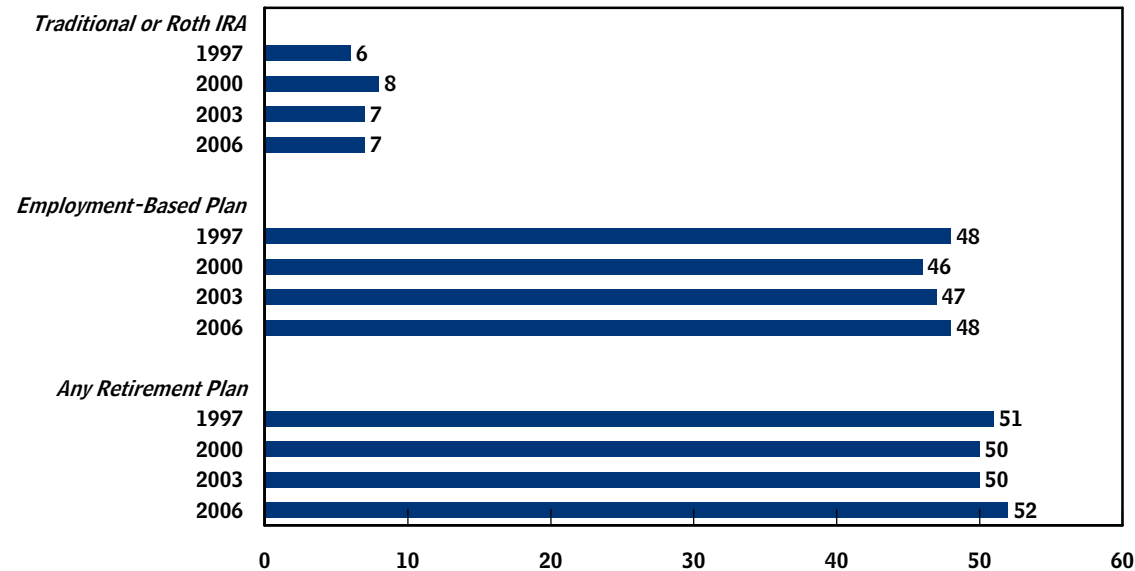
Participation in traditional and Roth IRAs generally rose with income in 2006. However, the increase was somewhat greater for Roth than for traditional IRAs.

At the lower end of the income scale, participation in traditional and Roth IRAs was similar—1 percent for those with income under \$20,000 and 3 percent for people whose income was between \$20,000 and \$39,999. At higher income ranges, up to \$160,000, however, participation was higher for Roth IRAs than for traditional IRAs. In the \$120,000-to-\$159,999 range, Roth participation reached a peak of 10 percent; about 6 percent of people in that group participated in a traditional IRA.

Although people whose income is above \$160,000 cannot contribute to a Roth IRA, there is no such restriction for traditional IRAs (although contributions may not be deductible). Ten percent of workers in that top income range made contributions (including nondeductible contributions) to those accounts. ♦

**Exhibit 7.****Retirement Plan Participation, 1997 to 2006**

(Percentage of all workers)



Source: Congressional Budget Office tabulations of a sample of 1997, 2000, 2003, and 2006 individual income tax returns and tax information returns.

Note: IRA = individual retirement account.

In 1997, 2000, 2003, and 2006, overall participation in all types of tax-favored retirement plans ranged from 50 percent to 52 percent, with no discernable trend over time. Participation in employment-based plans for all workers—wage earners and the self-employed alike—ranged from 46 percent to 48 percent, and IRA participation (whether in a traditional plan or in a Roth plan) ranged from 6 percent to 8 percent. ♦

**Exhibit 8.****Contributions by Wage Earners to 401(k)-Type Plans, 2003 and 2006**

Category	2003			2006			Annual Percentage Change in Average Contribution, 2003–2006 <sup>a</sup>
	Number of Participants (Millions)	Average Contribution (2006 dollars)	Percentage of Participants Contributing the Maximum	Number of Participants (Millions)	Average Contribution (2006 dollars)	Percentage of Participants Contributing the Maximum	
Age Group (Years)							
Under 30	5.6	2,140	1	6.6	1,950	1	-3
30 to 44	16.6	3,860	6	16.9	3,990	5	1
45 to 59	15.1	4,900	6	17.8	5,340	6	3
60 or Older	2.9	4,750	5	3.1	5,910	6	8
All Ages	40.3	4,070	5	44.1	4,350	5	2
Income Range (2006 dollars) <sup>b</sup>							
Under \$20,000	1.7	720	<1	2.1	670	<1	-2
\$20,000 to \$39,999	6.5	1,320	<1	7.4	1,290	<1	-1
\$40,000 to \$79,999	13.7	2,820	1	14.7	2,810	1	>-1
\$80,000 to \$119,999	9.7	4,570	3	9.4	4,720	2	1
\$120,000 to \$159,999	4.2	6,700	8	4.6	7,050	7	2
\$160,000 and Above	4.5	9,550	28	5.6	11,000	27	5
All Income Ranges	40.3	4,070	5	44.1	4,350	5	2
Marital and Earner Status							
Unmarried Earners	14.5	3,170	3	16.4	3,210	3	<1
Married Earners							
Sole	6.3	5,240	8	6.0	5,940	9	4
Primary	11.8	4,990	7	13.3	5,430	6	3
Secondary	7.7	3,400	3	8.4	3,750	4	3
All Earners	40.3	4,070	5	44.1	4,350	5	2

Source: Congressional Budget Office tabulations of a sample of 2003 and 2006 individual income tax returns and tax information returns.

a. Average change, adjusted for inflation.

b. The income ranges refer to adjusted gross income plus excluded contributions to retirement plans minus taxable distributions from individual retirement accounts.

In 2006, workers under the age of 50 could contribute 100 percent of their compensation, up to \$15,000, to a 401(k) plan; the limit for people age 50 or older was \$20,000. The average contribution among all groups was \$4,350, and 5 percent of all participants contributed the maximum allowable amount.

The higher contribution limits for older workers may be partly responsible for the fact that those groups contributed the most to 401(k)-type plans. But even workers between the ages of 30 and 44 made substantially higher average contributions (\$3,990) than did workers under the age of 30 (\$1,950). The two groups with members subject to higher limits made the largest average contributions—\$5,340 for people between the ages of 45 and 59, and \$5,910 for people age 60 or older. Contributions also grew fastest among older workers; average real (inflation-adjusted) contributions from people in the 60-or-older group increased by an average of 8 percent per year over the three-year period.

The association between the average contribution and income also was strong. The average contribution in 2006 was \$670 for people whose income was below \$20,000; people making more than \$160,000 contributed an average of \$11,000.

In 2006, the average contribution of a working spouse in a one-earner family (\$5,940) was the highest among the various groups by marital and earner status. Within two-earner couples, the primary earner contributed an average of \$5,430, and the secondary earner contributed an average of \$3,750. Unmarried workers contributed the least, averaging \$3,210. ♦

**Exhibit 9.****Contributions by the Self-Employed to Employment-Based Retirement Plans, 2003 and 2006**

Category	2003			2006			Annual Percentage Change in Average Contribution, 2003–2006 <sup>a</sup>
	Number of Participants (Millions)	Average Contribution (2006 dollars)	Percentage of Participants Contributing the Maximum	Number of Participants (Millions)	Average Contribution (2006 dollars)	Percentage of Participants Contributing the Maximum	
Age Group (Years)							
Under 30	<0.1	8,200	5	<0.1	10,000	10	7
30 to 44	0.4	13,510	9	0.3	15,000	11	4
45 to 59	0.7	16,040	12	0.7	17,010	13	2
60 or Older	0.2	15,340	9	0.3	17,020	11	4
All Ages	1.3	14,990	10	1.3	16,370	12	3
Income Range (2006 dollars) <sup>b</sup>							
Under \$20,000	<0.1	3,390	4	<0.1	3,090	6	-3
\$20,000 to \$39,999	0.1	4,360	<1	0.1	4,260	1	-1
\$40,000 to \$79,999	0.2	6,150	4	0.2	6,150	3	<1
\$80,000 to \$119,999	0.2	8,800	1	0.2	8,220	3	-2
\$120,000 to \$159,999	0.2	10,010	4	0.2	11,390	3	4
\$160,000 and Above	0.6	23,680	20	0.7	24,090	20	1
All Income Ranges	1.3	14,990	10	1.3	16,370	12	3
Marital and Earner Status							
Unmarried Earners	0.3	15,890	11	0.3	15,740	10	>-1
Married Earners							
Sole	0.3	20,380	17	0.3	23,340	20	5
Primary	0.4	17,820	11	0.4	19,540	13	3
Secondary	0.3	6,070	4	0.3	6,830	5	4
All Earners	1.3	14,990	10	1.3	16,370	12	3

Source: Congressional Budget Office tabulations of a sample of 2003 and 2006 individual income tax returns and tax information returns.

a. Average change, adjusted for inflation.

b. The income ranges refer to adjusted gross income plus excluded contributions to retirement plans minus taxable distributions from individual retirement accounts.

In 2006, contributions by self-employed people to employment-based plans were limited to \$44,000. The average contribution was \$16,370, and 12 percent of participants contributed the statutory maximum amount.

Average contributions by the self-employed generally increased with age and income. Among contributors who were age 60 or older, however, average contributions were about the same as they were for people between the ages of 45 and 59. Average contributions varied much more by marital and earner status than was the case for other types of plans, ranging from a low of \$6,830 for secondary earners in two-earner couples to a high of \$23,340 for sole earners in one-earner couples.

Average real (inflation-adjusted) contributions to employment-based plans by self-employed people increased by about 3 percent per year between 2003 and 2006. Although the limit on contributions was virtually unchanged in real terms over the period, the proportion of workers constrained by the limit increased from 10 percent to 12 percent. ♦

**Exhibit 10.****Contributions to Traditional IRAs, 2003 and 2006**

Category	2003			2006			Annual Percentage Change in Average Contribution, 2003–2006 <sup>a</sup>
	Number of Participants (Millions)	Average Contribution (2006 dollars)	Percentage of Participants Contributing the Maximum	Number of Participants (Millions)	Average Contribution (2006 dollars)	Percentage of Participants Contributing the Maximum	
Age Group (Years)							
Under 30	0.4	1,690	38	0.4	1,770	28	2
30 to 44	1.4	2,080	55	1.4	2,360	52	4
45 to 59	2.5	2,530	58	2.6	3,070	55	7
60 to 70	0.8	2,796	57	0.8	3,570	57	8
71 or Older	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
All Ages	5.2	2,370	55	5.2	2,840	52	6
Income Range (2006 dollars) <sup>b</sup>							
Under \$20,000	0.3	1,810	26	0.4	1,920	21	2
\$20,000 to \$39,999	1.0	1,990	33	0.8	2,180	25	3
\$40,000 to \$79,999	1.8	2,270	45	1.7	2,620	40	5
\$80,000 to \$119,999	0.9	2,360	66	0.9	2,850	59	6
\$120,000 to \$159,999	0.4	2,680	75	0.4	3,320	74	7
\$160,000 and Above	0.8	3,180	92	1.0	3,920	92	7
All Income Ranges	5.2	2,370	55	5.2	2,840	52	6
Marital and Earner Status							
Unmarried Earners	1.7	2,160	49	1.7	2,600	46	6
Married Earners							
Sole	1.0	2,630	60	0.9	3,140	58	6
Primary	1.2	2,450	56	1.3	2,860	53	5
Secondary	1.3	2,380	57	1.4	2,940	55	7
All Earners	5.2	2,370	55	5.2	2,840	52	6
Nonearning Spouses	0.9	2,720	66	0.8	3,290	64	7

Source: Congressional Budget Office tabulations of a sample of 2003 and 2006 individual income tax returns and tax information returns.

Note: IRA = individual retirement account; n.a. = not applicable.

a. Average change, adjusted for inflation.

b. The income ranges refer to adjusted gross income plus excluded contributions to retirement plans minus taxable distributions from IRAs.

In 2006, contributions to traditional IRAs were limited to \$4,000 for people under the age of 50 and \$5,000 for people who were 50 or older. For someone with an employment-based plan (or whose spouse had access to such a plan), the deductible amount depended on income. This exhibit shows deductible and nondeductible contributions combined.

The average contribution to traditional IRAs in 2006 was \$2,840, and 52 percent of participants contributed the statutory maximum. Although average real (inflation-adjusted) contributions increased by approximately 6 percent per year from 2003 to 2006, the maximum allowable contribution rose much more, so the percentage contributing the maximum dropped from 55 percent to 52 percent.

Because so many IRA contributors were constrained by the limits, there was much less variation in average amounts by income range than was the case for 401(k)-type plans. The average in 2006 for the under-\$20,000 range (\$1,920) was not quite half that (\$3,920) contributed by the group earning \$160,000 or more. In contrast, the average contribution to a 401(k)-type plan in the highest income range exceeded the average contribution in the lowest by a factor of more than 16 (see Exhibit 8).

Average contributions varied much less according to marital and earner status than they did for other characteristics or among contributors to 401(k)-type plans. Unmarried people contributed the least—about \$2,600, on average, in 2006. Contributions from the sole earner in one-earner couples averaged \$3,140; their nonearning spouses contributed the most: \$3,290, on average. ♦

**Exhibit 11.****Contributions to Roth IRAs, 2003 and 2006**

Category	2003			2006			Annual
	Number of Participants (Millions)	Average	Percentage of	Number of Participants (Millions)	Average	Percentage of	Percentage
		Contribution (2006 dollars)	Participants Contributing the Maximum		Contribution (2006 dollars)	Participants Contributing the Maximum	Change in Average Contribution, 2003–2006 <sup>a</sup>
Age Group (Years)							
Under 30	1.1	1,840	36	1.2	2,130	32	5
30 to 44	1.9	2,130	44	2.0	2,230	33	2
45 to 59	1.8	2,590	48	2.0	3,070	44	6
60 to 70	0.3	2,850	61	0.3	3,520	60	7
71 or Older	0.1	2,300	28	0.1	2,690	54	5
All Ages	5.2	2,270	44	5.5	2,590	39	4
Income Range (2006 dollars) <sup>b</sup>							
Under \$20,000	0.5	1,750	40	0.6	1,870	32	2
\$20,000 to \$39,999	0.7	1,840	31	0.8	2,160	31	5
\$40,000 to \$79,999	1.6	2,180	39	1.8	2,550	35	5
\$80,000 to \$119,999	1.4	2,500	49	1.5	2,820	40	4
\$120,000 to \$159,999	0.7	2,720	56	0.8	3,320	52	7
\$160,000 and Above	0.3	2,580	65	n.a.	n.a.	n.a.	n.a.
All Income Ranges	5.2	2,270	44	5.5	2,590	39	4
Marital and Earner Status							
Unmarried Earners	1.9	2,120	44	2.2	2,480	40	5
Married Earners							
Sole	0.7	2,550	55	0.7	2,860	47	4
Primary	1.4	2,280	40	1.4	2,600	34	4
Secondary	1.2	2,330	45	1.3	2,630	36	4
All Earners	5.2	2,270	44	5.5	2,590	39	4
Nonearning Spouses	0.5	2,530	52	0.5	2,920	51	5

Source: Congressional Budget Office tabulations of a sample of 2003 and 2006 individual income tax returns and tax information returns.

Note: IRA = individual retirement account; n.a. = not applicable.

a. Average change, adjusted for inflation.

b. The income ranges refer to adjusted gross income plus excluded contributions to retirement plans minus taxable distributions from IRAs.

Like contributions to traditional IRAs in 2006, Roth IRA contributions were limited to \$4,000 for people under the age of 50 and \$5,000 for people who were 50 or older. The maximum was gradually reduced for unmarried taxpayers whose income was more than \$95,000 or for married taxpayers filing joint returns whose income was more than \$150,000. No contributions were allowed if an unmarried taxpayer's income exceeded \$110,000; the income limit for married taxpayers filing jointly was \$160,000.

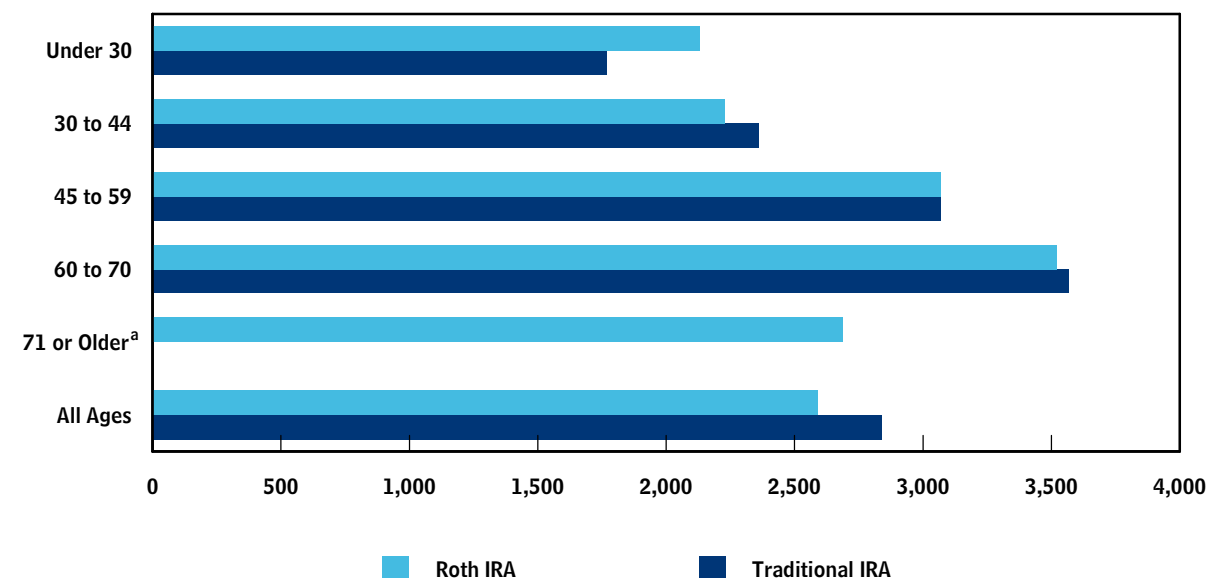
The average contribution to Roth IRAs in 2006 was \$2,590, and 39 percent of participants contributed the statutory maximum. Average real contributions increased by about 4 percent per year from 2003 to 2006. As with traditional IRAs, average contributions grew more slowly than the increase in the maximum allowable contribution, so the share of workers constrained by the maximum declined from 44 percent to 39 percent.

Average contributions to Roth IRAs ranged from \$1,870 in the under-\$20,000 group to \$3,320 in the \$120,000-to-\$159,999 group. The average contributions to Roth and traditional IRAs were similar within each of those income ranges. However, because of contribution constraints for people in the highest range (in which the average contribution to traditional IRAs was largest), the average contribution for Roth IRAs was lower than that for traditional IRAs.

Unmarried people contributed slightly less to Roth IRAs than married people did in 2006—about \$2,480, on average. Sole earners in one-earner couples contributed an average of \$2,860; their nonearning spouses contributed the most, averaging \$2,920. ♦

**Exhibit 12.****Average Contributions to Roth and Traditional IRAs, by Age Group, 2006**

(Dollars)



Average contribution patterns by age group differed slightly for Roth and traditional IRAs in 2006. In both cases, the amounts increased for contributors up to the age of 70. Roth IRA participants in the under-30 group made larger contributions, on average (\$2,130), than did their counterparts in traditional IRAs (\$1,770). In contrast, the contributions of Roth IRA participants between the ages of 60 and 70 tended to be slightly smaller (\$3,520) than the contributions of traditional IRA participants in the same age group. People age 71 or older are not permitted to contribute to traditional IRAs, and average contributions were smaller for Roth IRA contributors in that age group than were contributions for the 60-to-70 group. ♦

Source: Congressional Budget Office tabulations of a sample of 2006 individual income tax returns and tax information returns.

Note: IRA = individual retirement account.

a. Contributions to traditional IRAs are not permitted in this age group.



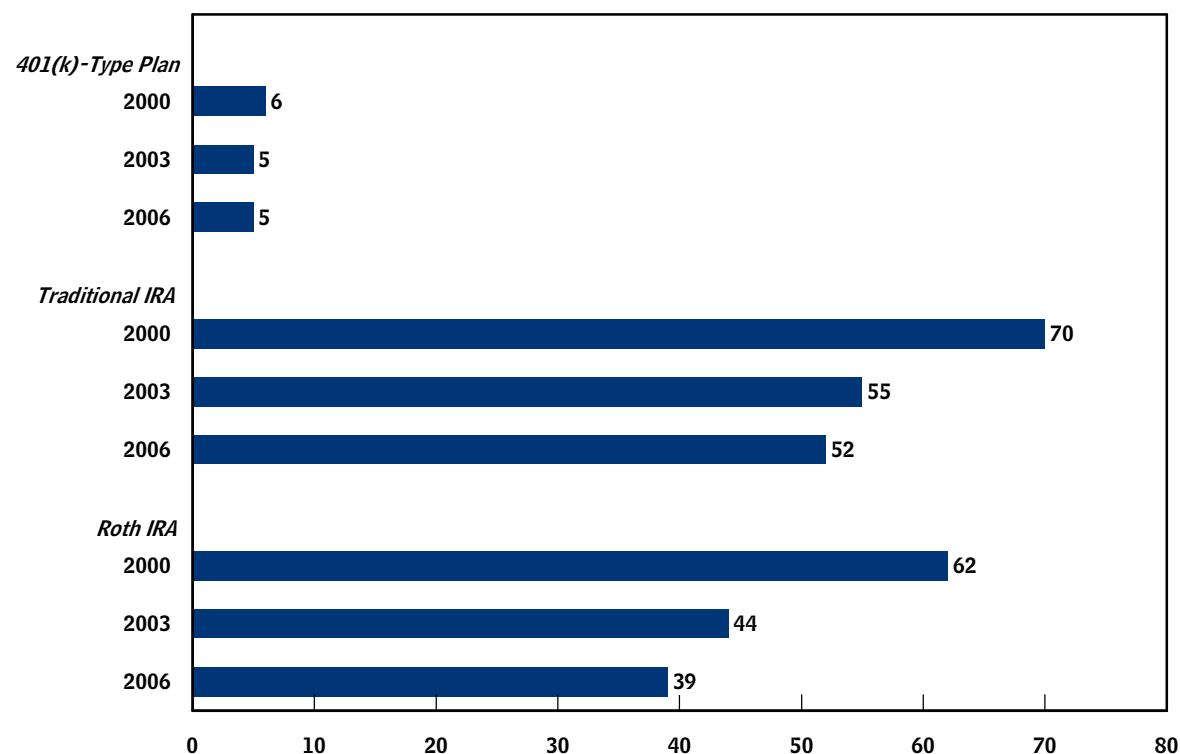


## **Effects of EGTRRA's Increases in Contribution Limits**



**Exhibit 13.****Participants Making the Maximum Contribution, 2000 to 2006**

(Percent)



Source: Congressional Budget Office tabulations of a sample of 2000, 2003, and 2006 individual income tax returns and tax information returns.

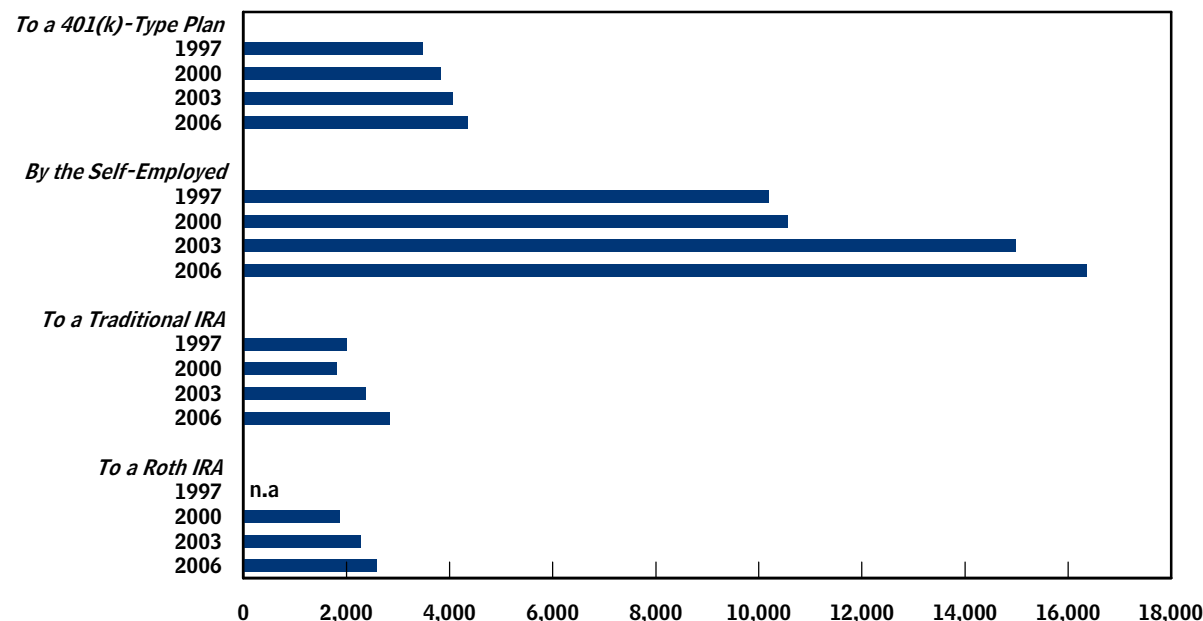
Note: IRA = individual retirement account.

EGTRRA increased the contribution limits for both types of IRAs and for 401(k)-type plans, but left the limits for IRA contributions much lower than for 401(k)-type plans. Because the IRA limits were so much lower than the 401(k)-type limits both before and after the changes under EGTRRA, the percentage of IRA contributors making the maximum contribution has always been greater than the percentage of 401(k)-type contributors doing the same. Although the contribution limits for traditional and Roth IRAs have been the same since Roth IRAs were introduced, fewer Roth IRA participants than traditional IRA participants have made the maximum contribution.

Increases in the IRA contribution limits specified in EGTRRA were phased in over the period between 2001 (when EGTRRA was enacted) and 2006. Because of those phased-in increases, the percentage of participants contributing the maximum to either type of IRA declined between 2000 and 2003 and again between 2003 and 2006. EGTRRA's increases in the maximum contribution for 401(k)-type plans were smaller relative to their original levels than for IRAs. Thus, the percentage of participants contributing the maximum to 401(k)-type plans decreased between 2000 and 2003 by only 1 percentage point, and then leveled off between 2003 and 2006. ♦

**Exhibit 14.****Average Real Contributions to Retirement Plans, 1997 to 2006**

(2006 dollars)



Source: Congressional Budget Office tabulations of a sample of 1997, 2000, 2003, and 2006 individual income tax returns and tax information returns.

Note: IRA = individual retirement account; n.a. = not applicable.

Aside from one type of plan in one period, average real (inflation-adjusted) contributions to all types of tax-favored retirement plans increased over every three-year period from 1997 to 2006. The exception was for traditional IRAs between 1997 and 2000, when the contribution limit was neither increased by statute nor indexed for inflation. Because most participants made the maximum contribution in 1997 and 2000 (see Exhibit 13 for the 2000 figures), the real value of their contributions declined.

The increase in limits attributable to EGTRRA seems to have had its largest effects on contributions to employment-based plans by self-employed people, whose average contributions increased by more than 40 percent between 2000 and 2003. That result was unexpected because relatively few self-employed contributors had been constrained by contribution limits even before EGTRRA was enacted in 2001. ♦

**Exhibit 15.****The Effect of EGTRRA on Maximum Contributions to 401(k)-Type Plans, 2006**

Category	Percentage of Participants Constrained by Contribution Caps		Change Due to EGTRRA	
	Under Pre- EGTRRA Law	Under Current Law (EGTRRA)	Percentage of All Participants	Percentage of Participants Constrained Under Pre- EGTRRA Law
<b>Age Group (Years)</b>				
Under 30	2	1	-1	-51
30 to 44	10	5	-4	-46
45 to 59	16	6	-10	-65
60 or Older	21	6	-15	-70
<b>All Ages</b>	<b>12</b>	<b>5</b>	<b>-7</b>	<b>-59</b>
<b>Income Range (2006 dollars)<sup>a</sup></b>				
Under \$20,000	1	<1	-1	-65
\$20,000 to \$39,999	1	<1	-1	-90
\$40,000 to \$79,999	3	1	-2	-80
\$80,000 to \$119,999	9	2	-7	-74
\$120,000 to \$159,999	21	7	-13	-65
\$160,000 and Above	51	27	-24	-48
<b>All Income Ranges</b>	<b>12</b>	<b>5</b>	<b>-7</b>	<b>-59</b>
<b>Marital and Earner Status</b>				
Unmarried Earners	7	3	-4	-58
Married Earners				
Sole	20	9	-11	-54
Primary	15	6	-9	-58
Secondary	11	4	-7	-67
<b>All Earners</b>	<b>12</b>	<b>5</b>	<b>-7</b>	<b>-59</b>

Source: Congressional Budget Office tabulations of a sample of 2003 and 2006 individual income tax returns and tax information returns.

Note: EGTRRA = Economic Growth and Tax Relief Reconciliation Act of 2001.

a. The income ranges refer to adjusted gross income plus excluded contributions to retirement plans minus taxable distributions from individual retirement accounts.

Five percent of participants in 401(k)-type plans in 2006 contributed up to the limits established by EGTRRA. Twelve percent contributed amounts equal to or greater than the pre-EGTRRA limits and presumably would have made the maximum allowable contributions in the absence of EGTRRA. Therefore, EGTRRA reduced the proportion of participants who were constrained by the contribution limits for 401(k)-type plans by 7 percentage points. Of those who would have been constrained by the pre-EGTRRA limits, 59 percent had that constraint lifted by EGTRRA.

Under pre-EGTRRA law, the percentage of participants constrained by the contribution limits would have risen with the age of participants, but EGTRRA's higher contribution limits for participants age 50 or older resulted in the percentage in the two oldest groups who were constrained by the limits being nearly the same as it was for people between the ages of 30 and 44.

The effect of raising the contribution limits differed for people whose income fell into different ranges. The percentage of all participants constrained by the limits declined the most for people in higher income groups. ♦

**Exhibit 16.****The Effect of EGTRRA on Maximum Contributions to Traditional IRAs, 2006**

Category	Percentage of Participants Constrained by Contribution Caps		Change Due to EGTRRA	
	Under Pre- EGTRRA Law	Under Current Law (EGTRRA)	Percentage of All Participants	Percentage of Participants Constrained Under Pre- EGTRRA Law
<b>Age Group (Years)</b>				
Under 30	47	28	-19	-41
30 to 44	68	52	-16	-24
45 to 59	76	55	-22	-29
60 or Older	84	57	-27	-32
<b>All Ages</b>	<b>73</b>	<b>52</b>	<b>-21</b>	<b>-29</b>
<b>Income Range (2006 dollars)<sup>a</sup></b>				
Under \$20,000	46	21	-26	-55
\$20,000 to \$39,999	51	25	-26	-51
\$40,000 to \$79,999	68	40	-28	-41
\$80,000 to \$119,999	79	59	-20	-26
\$120,000 to \$159,999	89	74	-16	-18
\$160,000 and Above	98	92	-6	-6
<b>All Income Ranges</b>	<b>73</b>	<b>52</b>	<b>-21</b>	<b>-29</b>
<b>Marital and Earner Status</b>				
Unmarried Earners	68	46	-22	-33
Married Earners				
Sole	78	58	-20	-26
Primary	73	53	-20	-28
Secondary	75	55	-20	-27
<b>All Earners</b>	<b>73</b>	<b>52</b>	<b>-21</b>	<b>-29</b>
Nonearning Spouses	81	64	-17	-21

Source: Congressional Budget Office tabulations of a sample of 2003 and 2006 individual income tax returns and tax information returns.

Note: EGTRRA = Economic Growth and Tax Relief Reconciliation Act of 2001; IRA = individual retirement account.

a. The income ranges refer to adjusted gross income plus excluded contributions to retirement plans minus taxable distributions from IRAs.

Fifty-two percent of participants in traditional IRAs in 2006 contributed up to the limits established by EGTRRA. Seventy-three percent contributed amounts equal to or greater than the pre-EGTRRA limits and presumably would have made the maximum allowable contributions in the absence of EGTRRA. Therefore, EGTRRA reduced the proportion of participants who were constrained by the contribution limits for traditional IRAs by 21 percentage points. Of those who would have been constrained by the pre-EGTRRA limits, 29 percent had that constraint lifted by EGTRRA.

Under pre-EGTRRA law, a strong relationship would have been evident between the age of a contributor and the likelihood of his or her being constrained by the contribution limits. By raising the limits for contributors age 50 or older, EGTRRA damped that correlation significantly. The proportion of the group age 60 or older (57 percent) that was constrained was only 5 percentage points greater than the proportion of the 30-to-44 age group (52 percent) that was affected.

The effect of the higher contribution limits under EGTRRA on the percentage of participants making the maximum contribution to traditional IRAs was greatest for lower-income people. About half of the contributors in the two lowest income groups would have been constrained by the pre-EGTRRA limits; only about one-quarter were constrained under EGTRRA. Almost all contributors in the group whose income was \$160,000 or more would have been constrained by the pre-EGTRRA limit, but that proportion remained above 90 percent even under EGTRRA. ♦

**Exhibit 17.****The Effect of EGTRRA on Maximum Contributions to Roth IRAs, 2006**

Category	Percentage of Participants Constrained by Contribution Caps		Change Due to EGTRRA	
	Under Pre- EGTRRA Law	Under Current Law (EGTRRA)	Percentage of All Participants	Percentage of Participants Constrained Under Pre- EGTRRA Law
<b>Age Group (Years)</b>				
Under 30	55	32	-22	-41
30 to 44	54	33	-21	-38
45 to 59	70	44	-26	-37
60 or Older	82	59	-23	-28
<b>All Ages</b>	<b>62</b>	<b>39</b>	<b>-23</b>	<b>-37</b>
<b>Income Range (2006 dollars)<sup>a</sup></b>				
Under \$20,000	52	32	-20	-39
\$20,000 to \$39,999	51	31	-20	-40
\$40,000 to \$79,999	58	35	-22	-39
\$80,000 to \$119,999	65	40	-25	-38
\$120,000 to \$159,999	78	52	-27	-34
\$160,000 and Above	n.a.	n.a.	n.a.	n.a.
<b>All Income Ranges</b>	<b>62</b>	<b>39</b>	<b>-23</b>	<b>-37</b>
<b>Marital and Earner Status</b>				
Unmarried Earners	62	40	-21	-35
Married Earners				
Sole	69	47	-22	-32
Primary	59	34	-25	-42
Secondary	61	36	-24	-40
<b>All Earners</b>	<b>62</b>	<b>39</b>	<b>-23</b>	<b>-37</b>
Nonearning Spouses	71	51	-21	-29

Source: Congressional Budget Office tabulations of a sample of 2003 and 2006 individual income tax returns and tax information returns.

Note: EGTRRA = Economic Growth and Tax Relief Reconciliation Act of 2001; IRA = individual retirement account; n.a. = not applicable.

a. The income ranges refer to adjusted gross income plus excluded contributions to retirement plans minus taxable distributions from individual retirement accounts.

Thirty-nine percent of participants in Roth IRAs in 2006 contributed up to the limits established by EGTRRA. Sixty-two percent contributed amounts equal to or greater than the pre-EGTRRA limits and presumably would have made the maximum allowable contributions in the absence of EGTRRA. Therefore, EGTRRA reduced the proportion of participants who were constrained by the contribution limits for Roth IRAs by 23 percentage points. Of those who would have been constrained by the pre-EGTRRA limits, 37 percent had that constraint lifted by EGTRRA.

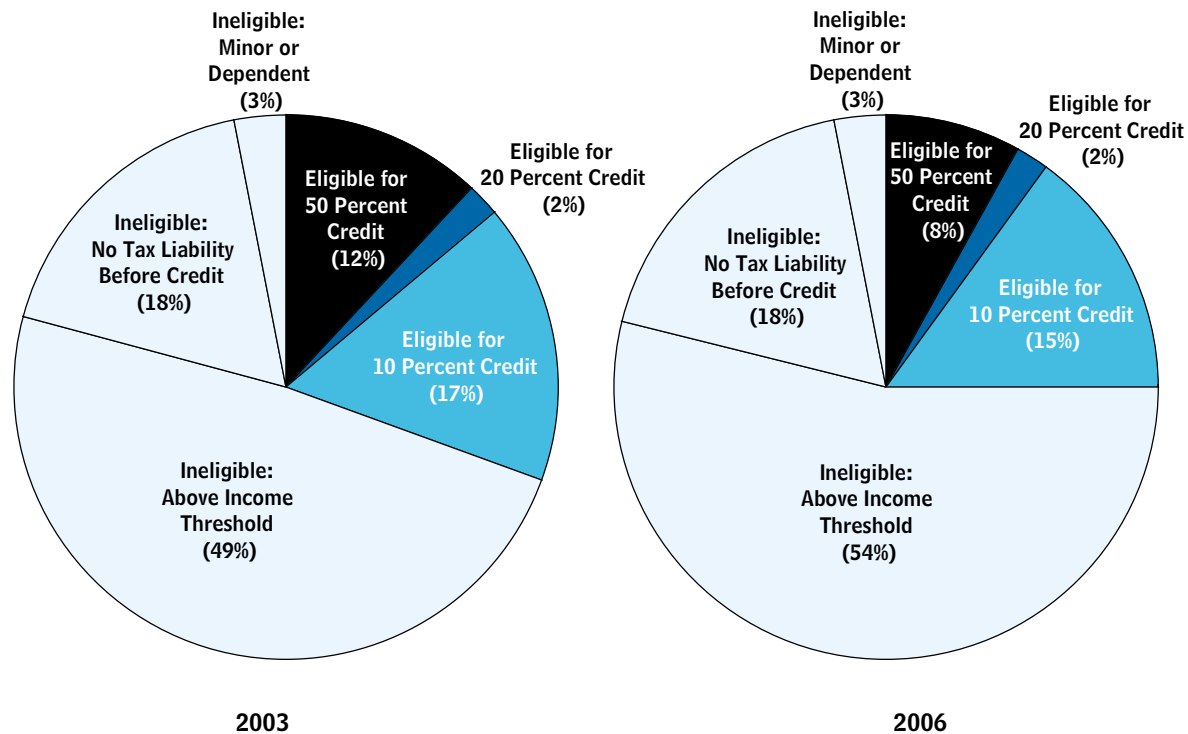
The correlation between age and the percentage of participants constrained under pre-EGTRRA law was not as strong for Roth IRAs as for traditional IRAs. Specifically, the constrained percentages in the two youngest age groups would have been almost the same under pre-EGTRRA law, although the proportion would have increased among people over age 44. Under EGTRRA's higher contribution limits, the proportions of participants constrained by the limits was lower for every age group, but the proportion that was constrained remained higher for people over age 44 than for younger people.

EGTRRA reduced the proportion of participants constrained by the contribution limits by 20 percentage points in the lowest income range and by 27 percentage points in the \$120,000-to-\$159,999 range. The largest percentage reduction in participants constrained by the limits was for people whose income was less than \$120,000. ♦



## **Use of the Saver's Credit**



**Exhibit 18.****Eligibility for the Saver's Credit, 2003 and 2006**

Source: Congressional Budget Office tabulations of a sample of 2003 and 2006 individual income tax returns and tax information returns.

Since 2001, low-income taxpayers who contribute to a retirement plan have been eligible to claim a “saver’s credit” against their federal income tax. The credit is nonrefundable (it cannot exceed the taxpayer’s income tax liability), and the credit rate declines as income rises.

In 2006, 25 percent of all U.S. workers were eligible for the saver’s credit, a decrease of 5 percentage points from 2003. Eight percent of all workers could take the maximum credit of 50 percent (down from 12 percent of workers in 2003), 2 percent could take the 20 percent credit (unchanged from 2003), and 15 percent could take the 10 percent credit (down from 17 percent in 2003).

The remaining workers were ineligible for the saver’s credit for a variety of reasons. In 2006, 54 percent of workers exceeded the income threshold for eligibility (\$25,000 for a single filer; \$37,500 for a head of household; \$50,000 for married joint filers). Another 18 percent of workers met the income criteria, but had no tax liability to offset. Three percent were ineligible because they were under age 18 or were listed as a dependent on another return. (Full-time students also are ineligible, but because students cannot be identified in the Internal Revenue Service’s data, CBO’s calculation of eligible taxpayers included all those age 18 or older who were not listed as dependents on another taxpayer’s return.) ♦



**Exhibit 19.****Claiming of the Saver's Credit by Eligible Workers, 2003 and 2006**

Category	2003			2006		
	Number Eligible for Credit (Millions)	Percentage of Making Qualified Contributions	Percentage of Eligible Claiming Credit	Number Eligible for Credit (Millions)	Percentage of Making Qualified Contributions	Percentage of Eligible Claiming Credit
<b>Age Group (Years)</b>						
Under 30	13.8	13	7	13.3	14	8
30 to 44	14.4	24	16	11.7	23	16
45 to 59	10.3	29	17	9.3	28	19
60 or Older	4.5	21	10	3.6	20	10
<b>All Ages</b>	<b>42.9</b>	<b>21</b>	<b>12</b>	<b>37.8</b>	<b>20</b>	<b>13</b>
<b>Income-Based Rate of Credit</b>						
50 Percent Credit	16.2	15	8	12.5	14	9
20 Percent Credit	3.4	20	11	3.2	20	13
10 Percent Credit	23.2	28	17	22.1	26	18
<b>All Rates of Credit</b>	<b>42.9</b>	<b>21</b>	<b>12</b>	<b>37.8</b>	<b>20</b>	<b>13</b>
<b>Marital and Earner Status</b>						
Unmarried Earners	24.2	17	9	22.9	17	10
Married Earners						
Sole	7.4	28	17	5.9	27	18
Primary	5.7	32	22	4.5	32	24
Secondary	5.7	18	12	4.5	16	12
<b>All Earners</b>	<b>42.9</b>	<b>21</b>	<b>12</b>	<b>37.8</b>	<b>20</b>	<b>13</b>
Nonearning Spouses	7.4	5	3	5.9	4	3

Source: Congressional Budget Office tabulations of a sample of 2003 and 2006 individual income tax returns and tax information returns.

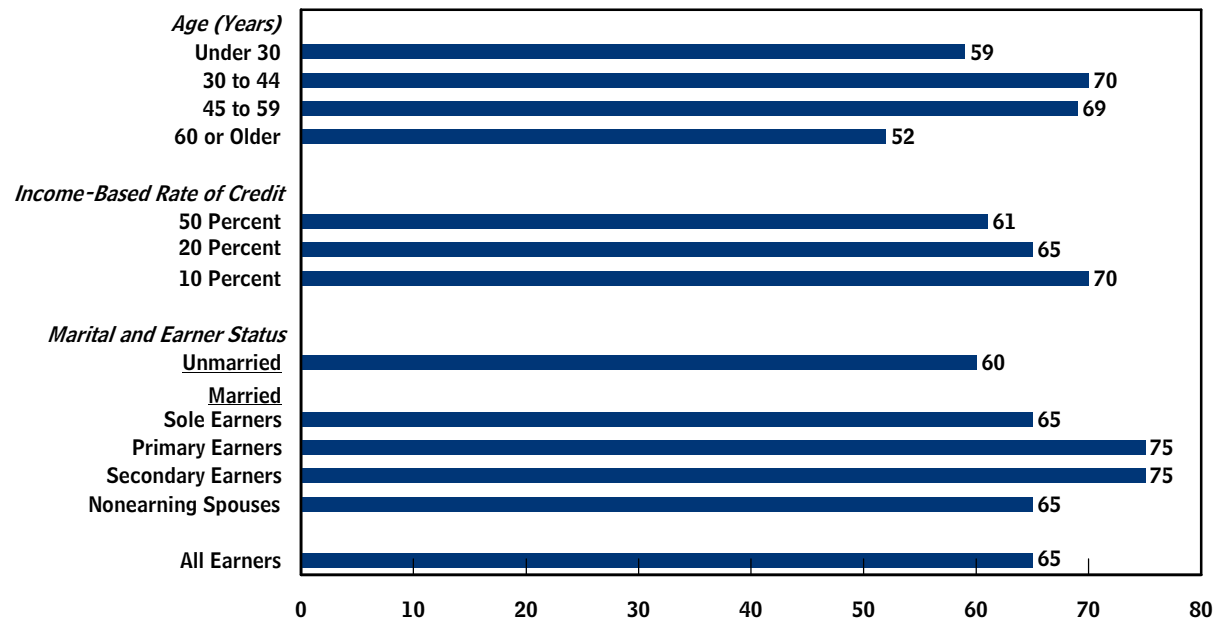
Just 20 percent of the people who were eligible for the saver's credit in 2006 made qualifying contributions to IRAs or 401(k)-type plans. In contrast, 51 percent of workers whose income was above the threshold for such eligibility made contributions that would otherwise have qualified for the credit (according to analysis not shown here).

The percentage of eligible workers who made qualifying contributions in 2006 increased with age up to the 45-to-59 group, ranging from 14 percent in the under-30 group to 28 percent in the 45-to-59 group. The percentage making qualifying contributions was lower in the higher-credit brackets—that is, among people with lower income. In 2006, 14 percent of those eligible for a 50 percent credit made qualifying contributions; the corresponding percentages for those eligible for the 20 percent and 10 percent credits were 20 percent and 26 percent.

The variation in the percentage of eligible workers making qualifying contributions was greatest among groups by marital and earner status. In 2006, 32 percent of primary earners in two-earner married couples made qualifying contributions, in contrast with 17 percent of unmarried taxpayers and 16 percent of secondary earners in two-earner married couples. Nonworking spouses cannot participate in 401(k)-type plans; thus, only 4 percent made qualifying contributions in 2006. ♦

**Exhibit 20.****Eligible Contributors Claiming the Saver's Credit, 2006**

(Percent)



Source: Congressional Budget Office tabulations of a sample of 2006 individual income tax returns and tax information returns.

A taxpayer must take two separate actions to benefit from the saver's credit: first, make a qualifying contribution to a retirement plan; then, claim the credit. In 2006, only 65 percent of the tax filers who qualified for the credit and made the necessary contributions actually claimed the credit. That percentage is higher than the 59 percent who did so in 2003, probably because the credit became better known over time. Overall, 13 percent of eligible working taxpayers (that is, 65 percent of the 20 percent who made qualifying contributions) actually claimed the credit in 2006 (see Exhibit 19).

Among eligible contributors, older workers were less likely than younger workers to claim the credit: In 2006, 52 percent of contributors age 60 or older claimed the credit. The highest percentage, 70 percent, was seen for people between the ages of 30 and 44. Among the credit brackets, the percentage of eligible contributors was largest (70 percent) for those who claimed the 10 percent credit and smallest (61 percent) for those who claimed the 50 percent credit.

Differences were seen among the various groups by marital and earner status. Seventy-five percent of the eligible contributors in two-earner couples claimed the credit, but only 60 percent of eligible unmarried contributors did so. ♦

**Exhibit 21.****Average Saver's Credits and Associated Contributions, 2003 and 2006**

Category	2003			2006		
	Number Claiming Credit (Millions)	Average Contribution (2006 dollars)	Average Credit (2006 dollars)	Number Claiming Credit (Millions)	Average Contribution (2006 dollars)	Average Credit (2006 dollars)
<b>Age Group (Years)</b>						
Under 30	1.2	1,050	150	1.5	950	120
30 to 44	2.4	1,490	167	1.9	1,400	147
45 to 59	1.8	2,310	223	1.8	2,080	183
60 or Older	0.4	2,810	272	0.4	2,870	214
<b>All Ages</b>	<b>5.8</b>	<b>1,750</b>	<b>188</b>	<b>5.6</b>	<b>1,590</b>	<b>156</b>
<b>Income-Based Rate of Credit</b>						
50 Percent Credit	1.4	1,350	348	1.1	1,340	292
20 Percent Credit	0.4	1,370	214	0.4	1,520	204
10 Percent Credit	4.0	1,920	132	4.1	1,670	115
<b>All Rates of Credit</b>	<b>5.8</b>	<b>1,750</b>	<b>188</b>	<b>5.6</b>	<b>1,590</b>	<b>156</b>
<b>Marital and Earner Status</b>						
Unmarried Earners	2.6	1,350	175	2.9	1,190	138
Married Earners						
Sole	1.2	2,450	254	1.1	2,320	224
Primary	1.2	2,070	185	1.1	1,950	155
Secondary	0.7	1,420	131	0.6	1,640	119
<b>All Earners</b>	<b>5.8</b>	<b>1,750</b>	<b>188</b>	<b>5.6</b>	<b>1,590</b>	<b>156</b>
Nonearning Spouses	0.2	2,170	215	0.2	2,300	168

Source: Congressional Budget Office tabulations of a sample of 2003 and 2006 individual income tax returns and tax information returns.

The average contribution (in 2006 dollars) to an IRA or a 401(k)-type plan made by taxpayers who were eligible to take the saver's credit fell from \$1,750 in 2003 to \$1,590 in 2006. But that decline was not universal across groups of workers. Among eligible workers, those age 60 or older, those in the 20 percent credit bracket, and those in earner roles with a greater representation of women (secondary earners in two-earner couples and nonearning spouses in one-earner couples) contributed more (in 2006 dollars) in 2006 than in 2003. Otherwise, patterns of average contributions by workers eligible for the saver's credit generally mirror those of all other contributions to IRAs and 401(k)-type plans.

Overall, the average credit per contributor (in 2006 dollars) fell from \$188 in 2003 to \$156 in 2006. That decline is, in part, attributable to bracket creep: Because the credit brackets were not indexed for inflation, as income rose over time, more people were in the lower credit brackets in 2006 than in 2003. ♦

**Exhibit 22.****Other Features of Contributions for Which the Saver's Credit May Be Claimed, 2003 and 2006**

Category	2003			2006		
	Number Claiming Credit (Millions)	Percentage Making Maximum Creditable Contribution	Percentage of Contributions Directed to an IRA	Number Claiming Credit (Millions)	Percentage Making Maximum Creditable Contribution	Percentage of Contributions Directed to an IRA
<b>Age Group (Years)</b>						
Under 30	1.2	13	25	1.5	13	25
30 to 44	2.4	22	20	1.9	21	20
45 to 59	1.8	37	31	1.8	35	30
60 or Older	0.4	48	38	0.4	47	41
<b>All Ages</b>	<b>5.8</b>	<b>27</b>	<b>27</b>	<b>5.6</b>	<b>25</b>	<b>28</b>
<b>Income-Based Rate of Credit</b>						
50 Percent Credit	1.4	20	39	1.1	20	39
20 Percent Credit	0.4	18	26	0.4	21	34
10 Percent Credit	4.0	30	25	4.1	27	24
<b>All Rates of Credit</b>	<b>5.8</b>	<b>27</b>	<b>27</b>	<b>5.6</b>	<b>25</b>	<b>28</b>
<b>Marital and Earner Status</b>						
Unmarried Earners	2.6	19	27	2.9	16	26
Married Earners						
Sole	1.2	40	22	1.1	43	19
Primary	1.2	32	23	1.1	31	27
Secondary	0.7	24	57	0.6	27	58
<b>All Earners</b>	<b>5.8</b>	<b>27</b>	<b>27</b>	<b>5.6</b>	<b>25</b>	<b>28</b>
Nonearning Spouses	0.2	50	100	0.2	52	100

Source: Congressional Budget Office tabulations of a sample of 2003 and 2006 individual income tax returns and tax information returns.

Note: IRA = individual retirement account.

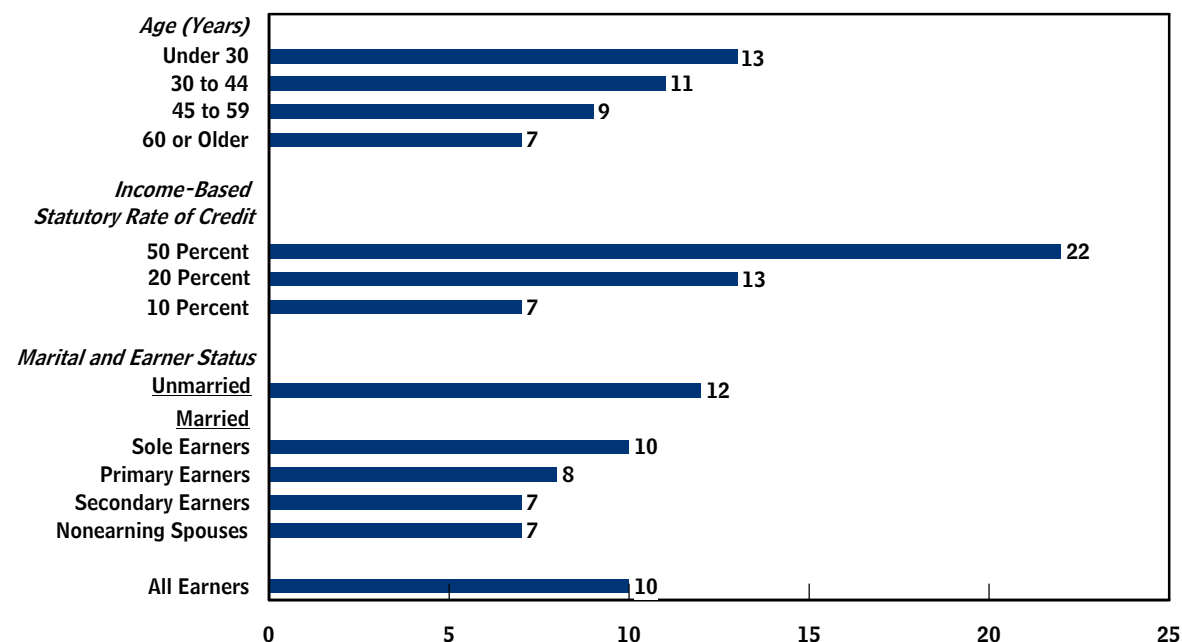
In some groups—taxpayers age 45 or older and both spouses in one-earner married couples—average contributions to retirement plans by workers eligible for the saver's credit exceeded the \$2,000 statutory limit for creditable saving. Because the saver's credit confers no additional benefit for contributions above that limit, the percentage of taxpayers who made contributions above that amount is an indicator of how many were not motivated by the credit. By that measure, approximately one in four contributors claiming the saver's credit in each year probably would have contributed just as much in the absence of the credit.

Regarding the sorts of retirement plans to which contributions were made by people who claimed the saver's credit, just over one-quarter went into IRAs (27 percent in 2003 and 28 percent in 2006), and the rest went into employment-based plans, mostly 401(k)-type plans. For people age 30 or older, the percentage of contributions allocated to IRAs increased with age, from 20 percent for the 30-to-44 group to 41 percent for people age 60 or older in 2006.

People who were eligible for a 50 percent credit directed the highest percentage of their contributions to IRAs—39 percent in both 2003 and 2006. Nonearning spouses made all of their contributions to IRAs, because employment-based plans were not available to them, and secondary earners allocated more than half of their contributions to IRAs, perhaps because they were less likely to be offered a retirement plan by an employer. ♦

**Exhibit 23.****Effective Rate of the Saver's Credit, 2006**

(Percent)



Source: Congressional Budget Office tabulations of a sample of 2006 individual income tax returns and tax information returns.

The effective rate of the saver's credit—the amount of actual tax reduction divided by total contributions made by eligible taxpayers—was less than the statutory credit rate would suggest. In 2006, the average credit for people who were eligible at the 50 percent rate was \$292, and the average contribution was \$1,340, resulting in an effective credit rate of 22 percent. The effective rate was less than the statutory rate of 50 percent for two reasons: First, contributions above \$2,000 are included in total contributions but generate no credit; and second, credits in excess of tax liability are not allowed. The effective credit rates in 2006 for the 20 percent and 10 percent credit brackets were 13 percent and 7 percent, respectively.

In 2003 (not shown here), the effective credit rates were higher in the 50 percent and 20 percent credit brackets (26 percent and 16 percent, respectively), but the same in the 10 percent bracket.

Effective rates of credit varied by age group and marital and earner status, depending largely on how members of each group were distributed among statutory credit brackets. Thus, the effective rate was highest for the younger age groups and for unmarried contributors. In both groups, more people fell into the 50 percent credit bracket. People in two-earner couples generally had a lower effective rate than did the working spouse in a one-earner couple. ♦

## Appendix: Data and Methods

This analysis was based on participation and contribution data for employment-based retirement plans and individual retirement accounts (IRAs). Individual income tax returns and associated tax information returns filed with the Internal Revenue Service (IRS) identify wage earners and self-employed people who are covered by an employment-based retirement plan as well as taxpayers who contribute to an IRA or 401(k)-type plan and the amounts they contribute. Employer contributions to retirement plans are not considered here because employers report those amounts to the IRS only in the aggregate, and the amounts cannot be linked to individual taxpayers.

Participation rates in employment-based plans and IRAs—and average contributions to each—were tabulated from a sample of tax returns for 2006 prepared by the IRS and enhanced by attaching data from Forms W-2 (filed by employers) and 5498 (filed by financial institutions).<sup>1</sup> Those information returns do not undergo the same degree of consistency checking at the IRS that the tax returns themselves do. Therefore, to impose consistency with the amounts reported on Forms 1040, the Congressional Budget Office (CBO) developed separate procedures for the two files.<sup>2</sup>

The subgroups of wage-earning participants in employment-based plans were defined on the basis of whether “retirement plan” was checked in

Box 13 of Form W-2 and whether there was a deferred-compensation amount shown in Box 12 of that form. Wage-earning participants in employment-based plans were separated into two discrete subgroups: those who contributed to a 401(k)-type plan (and, possibly, also participated in non-contributory plans) and those who participated in a noncontributory plan only. Participants in 401(k)-type plans were those with positive

deferred-compensation amounts. Participants in noncontributory plans only were those with zero deferred compensation but for whom the “retirement plan” box had been checked.

Self-employed participants in employment-based plans were defined as those who reported some amount on the line of Form 1040 labeled “Self-employed SEP [simplified employee pension], SIMPLE [Savings Incentive Match Plan for Employees], and qualified plans.” No subgroups could be identified.

IRA participants also were divided into two subgroups (in this case, not mutually exclusive): those contributing to a traditional IRAs and those contributing to a Roth IRA. The subgroups were identified on the basis of the plan type checked in Box 7 of Form 5498. Because each plan issues a separate Form 5498, taxpayers could fit into both subgroups, although only 3 percent of IRA participants did so in 2006.

Except in Exhibit 4, participation rates are expressed as a percentage of all workers represented in the database; that is, those who reported wages and salaries or attached at least one Schedule SE (the form filled out by self-employed filers). There were 150 million such workers in 2006 (including those who were claimed as a dependent on another taxpayer’s return). CBO estimates, on the basis of

1. Because the tabulations are from a sample, some sampling error is inevitable. The IRS publishes coefficients of variation (CVs) for most of the fields that can be extracted from Forms 1040. For IRA and self-employed contributions in 2006, the CV for those fields (both the number of returns and the amounts) was between 1.5 and 1.8 percent (see Internal Revenue Service, *Statistics of Income 2006: Individual Income Tax Returns* [July 2008], pp. 66–67). A CV of 1.8 percent implies that the value in the full population will fall within a range that is within 3.6 percent (higher or lower) of the tabulated average in 19 samples out of 20. For a tabulated dollar amount of \$1,000, that would correspond to a range of \$964 to \$1,036. Corresponding CVs in 1997 were slightly higher but still less than 3 percent (see Internal Revenue Service, *Statistics of Income 1997: Individual Income Tax Returns* [December 1999], pp. 58–59). CVs for contributions to 401(k)-type plans are not published but probably would be lower than for contributions to IRAs or retirement plans for the self-employed.
2. The procedures are described in Congressional Budget Office, *Utilization of Tax Incentives for Retirement Saving* (August 2003), Appendix A, pp. 15–19.

comparisons between tax returns and survey data, that about 3 million people with wage or self-employment income (usually in small amounts) did not file tax returns; those people are therefore not represented in the data here. If they were included and if they did not contribute to any retirement plan, the overall average participation rate would be about 1 percentage point below the rate reported in this study.

Accurately identifying participants making the maximum contribution to 401(k)-type plans was complicated by the rules governing 403(b) and 457 plans. In most cases, statutory contribution limits on 403(b) and 457 plans matched those for 401(k) plans, although higher limits applied for

some participants who were nearing retirement. Those to whom the higher limits applied could not be identified in the data and were counted as contributing the maximum amount if they exceeded the 401(k) limit. Furthermore, those participating in both a 457 plan and either a 401(k) plan or a 403(b) plan could contribute up to the maximum amount to each plan independently. That feature of the law could not be simulated with the available data. Thus, the percentages constrained by the maximum amount presented in this study are somewhat overstated.

In analyzing the saver's credit, CBO maintained the convention of treating the individual worker, rather than the tax return, as the unit of analysis,

even though credits are calculated on the basis of the income of the tax-filing unit rather than of the individual.<sup>3</sup> Credits were allocated between spouses on a joint return in proportion to their qualifying contributions, up to \$2,000. In the few cases in which a credit was claimed but no qualifying contributions could be identified, the credit was distributed in proportion to earnings. ♦

---

3. To date, the only other analysis of the saver's credit that is based on IRS data is that of Gary Koenig and Robert Harvey, "Utilization of the Saver's Credit: An Analysis of the First Year," *National Tax Journal*, vol. 53, no. 4 (December 2005), pp. 787–806. That article focused on the tax return as the unit of analysis, however, so direct comparisons with this study are difficult.